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Dole Plan Will *Deliver the Economic Growth America Needs*

The Dole Economic Plan: Less Federal Taxes Means Increased Economic Growth

This week former Senate Majority Leader Bob Dole released the most ambitious, growth-oriented economic plan since the outset of the Reagan Administration. It reins-in an increasingly intrusive Washington bureaucracy — not only through tax cuts but through regulatory and legal reform as well. It is intended to do no less than re-tool the American economic machine, from slowing growth in the face of mounting global competition to one that will lead the world in prosperity and performance long into the future.

In the words of Nobel Prize-winning economist Milton Friedman, the Dole plan, is "an excellent economic program" for America's future prosperity.

Despite virulent attacks by the White House's "low-grow status-quo" crowd, the Dole plan is well-designed to meet its objectives. In fact, the Dole plan's assumptions are far more realistic than those contained in President Clinton's last budget. Because of its strong emphasis on private-sector investment, with a clear focus on America's future economic strength, the Dole plan is far more likely to lead the country forward than the Clinton proposal, which is built upon public-sector spending.

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When it comes to ensuring America's prosperity, the Dole and Clinton economic blueprints represent a clear conflict of visions. The Dole plan unleashes America's potential by cutting taxes and restraining the growth of federal spending. The Clinton plan relies on increased government spending at higher and higher cost to the American taxpayer.

The Dole Economic Plan: Reducing the Role of Uncle Sam

The Dole plan is not simply a tax cut, but an overall economic plan to revitalize America's economy by reducing Washington's bureaucracy. There is no greater evidence of Washington's intrusion into America's affairs than in the area of tax policy. ***Last year, as a percentage of annual economic output, America's total tax burden reached an all-time high of***

30.4 percent. While this is not comprised entirely of federal taxes, it is largely Washington's doing as a result of federal mandates, which require local spending and hence, higher local taxes.

The centerpiece of the Dole plan is a $551.3 billion tax cut over the next six years. Almost 80 percent of this reduction will come from a three-stage, across-the-board 15-percent cut in personal income taxes that will eliminate the need for 40 million American taxpayers to even file annual tax returns.

In addition, the plan provides immediate relief to middle-class families with a $500-per-child tax credit for children under 18, an expanded IRA, a new spousal IRA, and a new Education Investment Account (EIA) that allows for tax-free savings and withdrawal of annual investments up to $500 annually when used for college education. It also repeals the Clinton 1993 Social Security tax increase and cuts in half the capital gains tax rate for individuals (to 14 percent — or 7.5 percent for those in the 15-percent tax bracket).

As the chart below shows, those that benefit the most will be families who are struggling the most.

In addition to immediate tax relief, the Dole plan will dramatically increase job creation by reducing costs to the U.S. economy in several ways. It will do so by bringing common sense to the federal regulatory process and by providing long overdue legal reform. New federal regulations would be subject to scrutiny throughout their formulation and implementation to make sure that they achieve the intended result and do so in the most cost-effective manner. All existing regulations also would be reviewed under the same criteria. The Dole plan also provides legal reform in order to eliminate frivolous lawsuits, excessive judgments, and the unnecessary costs these add to every aspect of the U.S. economy. Finally, fundamental, long-term tax reform will make the tax code fairer, flatter, and simpler.

Immediate Taxpayer Relief, Increased Economic Investment

The result of mounting taxes, mandates, regulations, and lawsuits from Washington policies has been a decreasing rate of economic growth as the nation's investment capital is siphoned away from families and businesses to finance the increasing cost of the federal government. Reducing taxes, regulations, mandates, and legal costs will have the opposite effect. Money will stay with the private sector where it can be put to best use. Rather than bureaucratic consumption, it will go directly to higher wages and to growth through private investment, which in turn will produce further growth.

However, cutting taxes is about more than just economic growth. It is also about basic fairness. Too often, cutting taxes is portrayed as a sacrifice on Washington's part or as the federal government giving something away. This is exactly backwards: just as

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growth does not originate from Washington, neither does tax revenue. It comes instead from taxpayers. Allowing Americans to keep more of what they earn is not only about what is good for the country's economy, it is also about basic fairness.

How Families With Children Fare

Regardless of their income level, families with two children save under Dole's Tax Plan

Source: Coopers & Lybrand, Reprinted by Washington Post 8/6/96

	Family 1	Family 2	Family 3	Family 4
Net Income	$35,000	$75,000	$100,000	$250,000
Current Taxes Owed	$2,715	$8,549	$14,437	$59,117
Taxes Owed under Dole Plan	$1,308	$6,267	$10,781	$48,290
Total dollar savings	$1,407	$2,282	$3,656	$10,827
Total percentage savings	51.8	26.7	25.3	18.3

Families Without Children

Source: Dole Campaign

	Family 5	Family 6	Single taxpayer
Net Income	$50,000	$60,000	$30,000
Current Taxes Owed	$5,190	$6,802	$3,458
Taxes Owed Under Dole Plan	$4,412	$5,075	$2,939
Top dollar savings	$779.00	$1,727	$519
Total percentage savings	15	25.4	15

Paid In Full

The Dole plan's first premise is that it must be paid for in Washington — not across America in the form of higher taxes or increased debt through continued federal deficits. To guarantee this, it calls for a Balanced Budget Amendment to the U.S. Constitution and a requirement that further tax increases be approved by super-majorities in Congress.

The Clinton White House has attacked the plan's balance sheet on two points: that the projection of its economic return is too high and that the federal spending reductions cannot be accomplished or that they will cause drastic cuts in federal spending. Neither of these charges bears up to scrutiny.

Amazingly, the Clinton Administration has sought to label the Dole tax cut's ability to pay for itself as "voodoo economics," when in fact the most recent Clinton budget actually claimed far higher revenue growth for itself with less justification. The Dole economic plan actually claims that only $147 billion of its $551.3 billion will flow back to the Treasury over the next six years as a result of higher economic growth. This so-called "economic feedback" of the tax cut amounts to only about one quarter of the tax cut package, which in turn is only part of the overall economic stimulus plan. This is not only in line with other projections but downright modest when compared to the claims for Clinton's latest budget.

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The Clinton budget for the next fiscal year claimed a total tax cut of just $117.4 billion over six years. However, the Clinton budget also included $92 billion in new taxes over the same period. The net effect of the Clinton Administration's claimed tax cut was a minuscule $25.4 billion over six years — just over $4 billion annually. In spite of the tiny tax cut, the Clinton budget claimed enormous revenue growth. When the Congressional Budget Office (CBO) reviewed the Clinton budget, the White House was found to have estimated revenue growth to be $304 billion higher than CBO did over the six-year period.

Clinton's Claim to Increased Tax Revenue

Source: President's FY1997 Budget
(In Billions of Dollars)

	1996	1997	1998	1999	2000	2001	2002	96 to 02
*Tax Revenue Projections Due to Economic Differences	9	24	35	44	54	65	73	304
Clinton Gross Tax Cut	1.26	17.56	14.09	17.53	21.37	22.38	23.20	117.4
Clinton Tax Increases	.20	11.1	13.0	15.3	16.3	17.0	19.1	92.0
Clinton Net Tax Cut	1.06	6.46	1.09	2.23	5.07	5.38	4.10	25.4

* Source: CBO 5/96 "The Economic and Budget Outlook: Fiscal Years 1997- 2002"

In other words, the Clinton budget was claiming a $304 billion return on its policies. However, the economic policy that generated this $304 billion was just a gross tax cut of only $117.4 billion and a net tax cut of just $25.4 billion. And so, whereas the Dole plan claims that a quarter of its tax cut would return in the form of higher revenues, the Clinton budget claimed that well over ***twice its gross tax cut and 12 times its net tax cut*** would return to the federal Treasury.

The same sort of specious budgeting afflicts the Clinton claims that the Dole economic plan would result in either drastic spending cuts or an unbalanced budget. The Dole plan is premised on keeping in place the balanced budget plan that Congress passed in the FY 1997 budget resolution. To offset the cost of its tax cut, the Dole plan estimates that $217 billion in federal savings will be needed over the six-year period to fully offset its effect on the balanced budget plan already in place in Congress.

The Dole plan stipulates that none of this additional savings will come from entitlement spending such as Social Security, Medicare, or from the nation's defense that has already been cut under Clinton budgets. Any spending savings will come from the annually appropriated accounts — so-called discretionary spending.

Dole Plan's Effect on Discretionary Federal Spending

1996 to 2002 Total

(In Billions of Dollars)

Discretionary Outlays (OL)	3147
Defense OL	1606
Non-Defense OL	1541
Dole Reduction	217
FCC Spectrum	-34
Reduction - FCC	183
10% Administrative Cut	-90
Reduction -FCC +Admin Sav.	93
% Reduction in Non-Defense Discretionary Spending	6

The Dole plan identifies this savings as first coming in the form of higher federal receipts from $34 billion in additional sales of the FCC-controlled spectrum to broadcasters. The remaining $183 billion in savings ($30.7 billion annually) will come from additional savings in nondefense discretionary spending. This would first be achieved by a 10-percent reduction in bureaucratic overhead that would result in an estimated $90 billion in savings. Only the remaining $93 billion would come from actual federal programs.

This $93 billion in six-year savings requires only a 6-percent reduction in the $1.541 trillion in non-defense discretionary spending proposed over the six-year period. The effect on total federal spending is even more subtle. Total federal outlays under the Dole plan's assumptions would amount to $10.2 trillion by FY 2002. It would grow by $211 billion from today's spending total — a 13.4 percent increase. The real problem the Clinton Administration has with the Dole plan is that the White House wants to spend substantially more — in such amounts that CBO has said will not result in a balanced budget in 2002.

Total Federal Outlays

(in billions of dollars)
Source: CBO & CBO ASSUMPTIONS

	1996	1997	1998	1999	2000	2001	2002	Total
Outlays								
Clinton—CBO estimate	1572	1633	1702	1744	1797	1855	1934	10665
FY 1997 Budget Resolution	1572	1622	1679	1718	1765	1797	1842	10423
Dole Reductions		13	27	35	38	45	59	217
Dole Outlays	1572	1609	1609	1683	1727	1752	1783	10206

Federal Outlays

	$ Increase: 96-02	% Increase: 96-02
Clinton	362	23
Dole	211	13.4

Conflicting Visions: Less Federal Taxes or More Federal Spending?

Cutting taxes is not a new approach to increasing economic prosperity. It has been done in Washington under Presidents Reagan and Kennedy. It has been done in 21 state capitals in 1995 and 27 governors have recommended it in their most recent budgets. Cutting taxes is only an untried approach in Washington under President Clinton. In reality it is more than that: in President Clinton's Washington it is an antithetical approach.

President Clinton's first economic proposal to aid the economy was to increase federal spending. Then-Senator Dole defeated that proposal; however, it remains indicative of the Clinton approach. The first Clinton budget continued to pursue America's prosperity through increased Washington spending. To pay for it, the Clinton budget contained the largest tax hike in U.S. history — $275.6 billion in new taxes in a budget that still does not balance. Increased taxes and increased spending have continued to be the route taken by President Clinton and his party in Congress. To pay for his nationalized health care plan, Clinton proposed an even higher tax hike of $289 billion. This year, President Clinton's party in the Senate debated over the FY 1997 budget resolution proposed still higher taxes — $295.6 billion — to again offset higher spending.

The Dole economic plan is a step out of the Clinton higher spending-higher taxes rut. It simply says that we can keep to the balanced budget course already set by Congress and cut taxes – first with immediate middle class tax relief and then with a longer-term overhaul of the whole tax system. The conflict between the Dole approach and the Clinton approach is not one of numbers as much as it is a conflict of visions. The Dole vision is that economic growth originates in America from less federal spending and less federal taxes. The Clinton vision is that economic growth originates in Washington from more federal spending and more federal taxes. The Dole economic plan envisions that growth can eventually surpass its post-World War II average of 3.3 percent and grow at 3.5 percent. The Clinton Administration economic policy envisions that it will fall from its already anemic 2.4 percent under his to just 2.3 percent in the future.

The Dole economic plan follows a course set both in Washington under Presidents Reagan and Kennedy and in states all across the country today. It is founded on fiscal discipline for the federal government, on conservative economic growth estimates, and fundamental tax fairness for the American taxpayer. It logically assumes that there will be both an immediate and direct positive economic effect as money is allowed to remain where it is earned, thus allowing for greater immediate gains and greater future gains as increased investment leads in turn to higher growth over time. Finally, it is premised on the belief that America will better be able to meet its future obligations — to its citizens, its children, its elderly, its poor, and abroad — with a strong economy rather than a weak one.

Dole Economic Plan Balance Sheet

(Billions of Dollars) Revenues

	1997	1998	1999	2000	2001	2002	97-02
Baseline Revenues (CBO Adjusted)	1498	1564	1635	1710	1790	1875	10072
Tax Cuts (JCT 8/8/96 Estimate)	-15	-56.6	-101.4	-120.3	-128.2	-130	-551.3
Income Growth Effect (1)	2	12	25	34	36	38	147
Net Revenues	1488	1518	1561	1621	1699	1783	9667.7

Deficit Effect

Outlays	1622	1679	1718	1765	1797	1842	10423
Net Revenues	-1488	-1518	-1561	-1621	-1699	-1783	-9667.7
Additional Savings (2)	-13	-27	-35	-38	-45	-59	-217
Deficit	121	134	122	106	53	0	

(1) This represents the rise in tax revenues due to higher economic growth and behavioral responses of taxpayers which both increase taxable income. (2) Medicare, Social Security, and Defense programs are "off-the-table." Additional proposed savings include:

Additional Savings

Proposed Reduction	6- year savings
10% cut in non-defense administrative costs	$90 billion
FCC Spectrum Auction	$34 billion
Non-Defense Program Reductions:	$93 billion
Total Savings	**$217 billion**

Dole Economic Plan Tax Cut Proposals
(in billions of $'s over 1997-2002)
Joint Committee on Taxation 8/8/96 Estimate

15% individual income tax rate cut	411.2
$500 per child tax credit	76.9
Clinton 1993 Social Security tax repeal	28.5
Charity contribution tax credit	5.2
Student Loan Interest Deduction	1.1
Capital gains reform	14.2
Elderly dependent care deduction	.7
IRA education withdrawal	1.4
Employer-provided graduate education assistance	1
Employer-provided graduate education assistance	2.4
Increase to 100% self-employed health insurance deductibility	—
Other	8.7
Total	551.3

The Dole Economic Plan would begin returning income to middle class families and capital to businesses by cutting taxes $551.3 billion over the next six years. This cut would include:

- **Phased-in 15 percent, across-the-board cut of all income taxes;**
- **$500-per-child tax credit for children under age 18;**
- **Repeal of the Clinton Social Security tax hike of 1993;**
- **50 percent credit for charitable contributions up to $200 in 1998 to qualified poverty relief groups;**
- **Reduction in estate taxes for qualified small businesses -- a $1 million exclusion by 2006;**
- **$1,000 deduction for in-home custodial care of elderly parents and dependents;**
- **Increased deductibility of self-employed health insurance premiums to 100 percent;**
- **Education tax incentives including:** student loan interest deduction, penalty-free withdrawals from IRAs and qualified pension plans for education and training, provide tax-exempt status to all State-sponsored prepaid tuition programs, Education Investment Accounts (EIAs) for up to $500 in annual contributions with tax-free buildup when used for college and post-secondary education, and permanent extension of favorable tax treatment for employer-provided undergraduate and graduate education; and
- **Capital gains tax reform to encourage savings and investment.**

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